



Petroleum Market Report

July 3, 2000

Energy Information Administration
Office of Oil & Gas

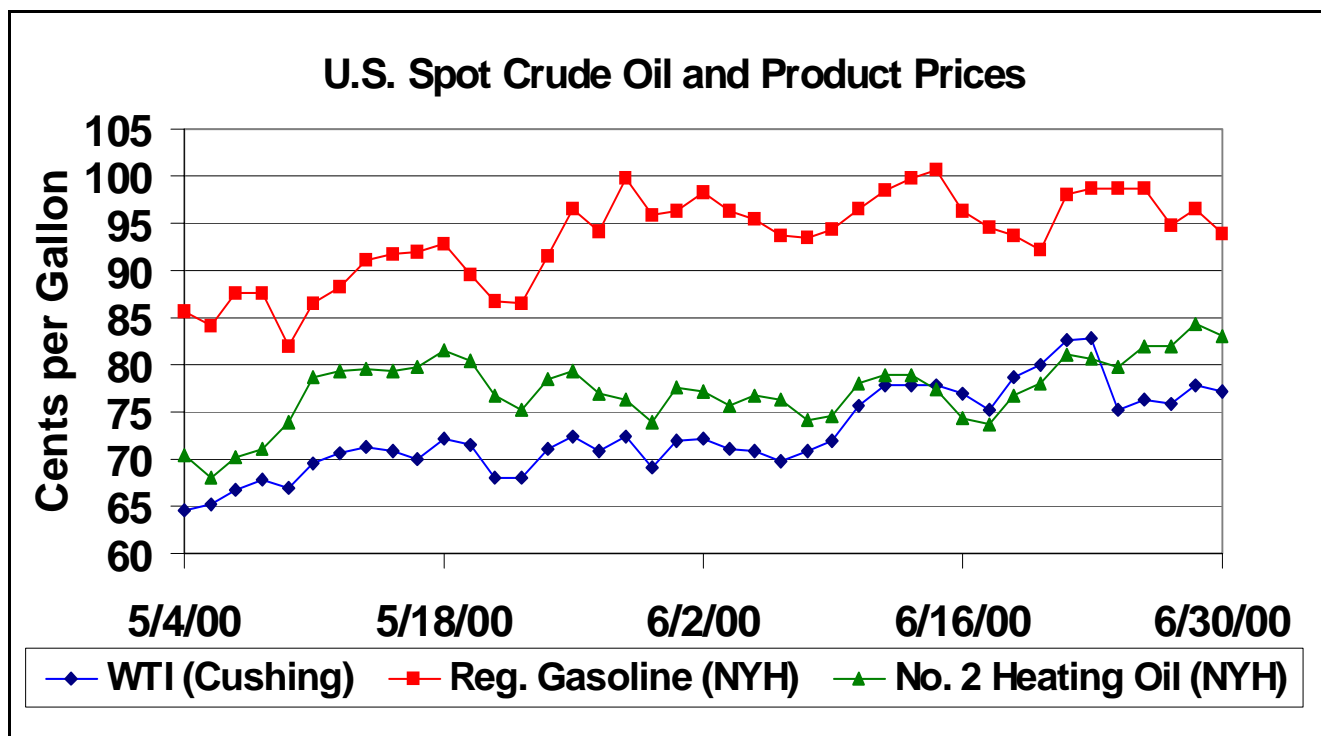
MARKET SUMMARY

Price movements in U.S. petroleum spot and futures markets were mixed last week, as traders wrestled with the combined effects of increased OPEC production quotas, refinery unit shutdowns and restarts, futures contract expiration, and pre-holiday effects. Gasoline prices moved downward, aided by the restarting of key units at several refineries, only partially offset by problems at others. Crude oil was mostly lower, in a delayed reaction to the previous week's OPEC action, while distillates firmed on growing concerns about supplies for the coming winter.

Crude oil - markets continued to digest the impact of the 708,000 barrel-per-day OPEC quota increase starting July 1. Price reaction to date has been muted, leading several OPEC members to hint at possible further production increases. In the United States, spot WTI prices dropped sharply, falling back in line with NYMEX futures, after the closing of Cushing pipeline nominations for July. Further bearish influences came from a small U.S. stockbuild in the week ending June 23, the first in 5 weeks, and mention by President Clinton of possible crude oil sales from the Strategic Petroleum Reserve in order to help bring gasoline prices down.

Gasoline - prices generally continued to decline east of the Rockies, led by further drops of 10 cents or more in the Midwest. Restarting of a crude unit at a major Gulf Coast refinery, along with an unexpected stockbuild in the week ending June 23, helped pull prices lower. Continued stock declines in the face of peak summer demand on the West Coast has sent prices there to the highest levels since mid-March.

Distillate - markets firmed during the week, pushing East Coast prices to 3½- month highs by Thursday, before pre-expiration profit-taking set in on Friday. Congressional testimony highlighted projections of tight supplies for the coming winter heating season.



CHRONOLOGY OF RECENT MARKET EVENTS

- 6/30 - falling** - all prices ended lower in late profit-taking, ahead of both the extended holiday weekend and expiration of the July NYMEX product contracts at the close. Hints from Saudi Arabia about the possibility of further output increases were also bearish.
- 6/29 - rising** - prices rose solidly marketwide, led by sharp gains in distillates following Congressional testimony on concerns for the coming winter. Crude oil prices rose with products, despite announcement of a 100,000-barrel-per-day increase in Norwegian production.
- 6/28 - falling** - gasoline led all prices lower, in the wake of weekly supply reports from API and EIA showing unexpected gasoline stockbuilds, along with increases in crude oil and distillate inventories as well. Mention by President Clinton of the possibility of further releases from the Strategic Petroleum Reserve contributed to downward pressures.
- 6/27 - mixed** - crude oil and most product prices moved higher, ahead of the weekly API and EIA supply reports. With markets still seemingly unconvinced by OPEC's quota increase, the cartel's president, along with Mexico's energy minister, said a further increase was possible if needed.
- 6/26 - falling** - most prices turned downward in profit-taking after the previous week's rise, in what appeared to be a delayed reaction to OPEC's agreement to increase production quotas by 708,000 barrels per day. A refinery explosion in Kuwait was offset by restarts of FCC units at two U.S. refineries, though another remained offline.
- 6/23 - mixed** - crude oil, gasoline, and propane prices rose, while heating oil and jet fuel prices fell, as the market continued to drive up crude oil prices, despite OPEC's recent decision, as well as an announcement from Mexico that it was increasing oil exports by 75,000 barrels per day. Norway's government also announced the end of an oil workers strike that was affecting production.
- 6/22 - rising** - prices rose across the board, as OPEC's agreement to increase oil production quotas by 708,000 barrels per day fell short of market expectations. In addition, an outage at a gasoline making unit at a Philadelphia area refinery helped to extend gasoline's gains.
- 6/21 - mixed** - for the second day in a row, all prices, with the exception of gasoline, increased as both API and EIA both showed a decline in crude oil inventories in their weekly reports. Gasoline prices fell after both API and EIA reported slight increases in gasoline inventories.
- 6/20 - mixed** - all prices, with the exception of gasoline, increased as the July crude oil contract expired today. Confusing comments from various OPEC ministers on the size of any increase in production also put upward pressure on most markets.
- 6/19 - falling** - all prices declined, as markets focused on expectations of a substantial increase in oil production from OPEC stemming from their upcoming ministerial meeting later this week. Additionally, release of 1 million barrels from the Strategic Petroleum Reserve to make up for transportation problems resulting from a blocked channel, also put downward pressure on prices.